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August 1989 Monthly Survey

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Surveys of Consumers

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Consumer Confidence Slips Amid Shifting Cross-Currents

Small Overall Decline In Sentiment Index

The Index of Consumer Sentiment was 89.6 in the August 1989 survey, down from 92.0 one month earlier and 97.4 one year earlier. Although only marginally below the 90.6 recorded in June 1989, the August reading was the lowest recorded since late 1987.

The entire loss recorded in August was concentrated in consumer's views on prospects for the national economy. In contrast, personal financial prospects and attitudes toward buying conditions for household durables improved slightly. Moreover, consumers' assessments of prospects for economic conditions showed significant divergences: although their overall assessments of business conditions weakened, inflation and interest rate expectations improved. At present, the small overall decline in consumer confidence may simply reflect changing cross-currents in the economy rather than an emerging downward trend.

Among families with incomes of $40,000 or more, the Index fell to 93.1 in the August 1989 survey, from 101.9 in July and 104.2 in August 1988. The sharp August decline in sentiment among high income families reversed the equally sharp improvement recorded in July. Although only marginally below the 95.4 recorded in May, the Index among high income families in August was the lowest recorded in more than a year.

Leading Indicator Falls

The Index of Consumer Expectations fell to 80.3 in the August 1989 survey, down from 85.5 one month earlier, but remained just above the 80.1 recorded three months earlier. The decline was due to weakening prospects for the economy.

Prospects for Economy Weaken

Fewer families thought that business conditions had improved during the past year, and more families expected the same sluggish performance of the economy to continue during the year ahead. Among all families, the proportion that thought that conditions in the national economy had improved fell to 42 percent in the August 1989 survey, down from 51 percent recorded in August 1988. Sixty percent of all families in the August survey expected that the performance of the national economy would remain unchanged, up from 54 percent in August 1988.

Good times financially in the economy as a whole were expected by 46 percent of all families in the August 1989 survey, reversing the month earlier gain to 53 percent, and returning to the level recorded three months earlier.

Over the longer term, just 33 percent of all families expected good times financially in the economy as a whole, down from 39 percent in July. The August reading on long term prospects for the economy was the least favorable recorded since

the end of 1987. At present, more families expected a recessionary downturn sometime during the next five years than expected the economy to continue to expand by the margin of 45 to 33 percent.

Prospects for the domestic unemployment rate were less favorable in August 1989 than since the end of 1987. Among all families in the August survey, 35 percent expected the national unemployment rate to increase during the year ahead, compared with just 10 percent that expected further declines. Importantly, the majority of families still expected the unemployment rate to remain largely unchanged during the year ahead both in the August 1989 survey (54 percent) and the August 1988 survey (53 percent).

Inflation Expectations Decline

Consumers expected the annual inflation rate for the year ahead to average 4.7% in the August 1989 survey, down from 5.1% one month earlier and 5.4% one year earlier. At 4.7%, the expected inflation rate was the lowest recorded since the start of 1988.

Interest rate expectations posted a small further improvement in the August survey, with the proportion that expected increases during the year ahead falling to 49 percent in August, from 51 percent in July and the Spring peak of 75 percent. The proportion that expected declines in interest rates rose to 24 percent in August.

Home Buying Stimulated By Declines in Mortgage Rates

Favorable attitudes toward buying conditions for homes were held by 64 percent of all families in the August 1989 survey. Although this proportion was unchanged from the July reading, the August level is up from the April low of 58 percent. Overall, current attitudes toward home buying are still somewhat below the year earlier reading, when 67 percent held favorable buying attitudes.

Since April, when assessments of interest rate trends were quite unfavorable, the proportion of families that mentioned the availability of low mortgage interest rates has risen from 16 to 28 percent, while complaints about high interest rates fell to 15 from 28 percent.

Perception of home prices improved in the August survey, with the proportion of families that mentioned the availability of good buys on homes rising from 19 to 23 percent in July (the highest recorded during the past year). Complaints about high home prices, however, remained at an elevated level, mentioned by 18 percent of all families in August, unchanged from July and above the 13 percent recorded in August 1988.

Car Buying Attitudes: Higher Prices Offset Discounts

Throughout the past year, the proportion of families holding favorable car buying attitudes has remained in a very narrow range (from 60 to 65 percent), showing no overall trend. In the August 1989 survey, favorable attitudes toward buying conditions for cars were held by 61 percent of all families, just below the 64 percent recorded one month earlier and the 62 percent recorded one year earlier.

These largely unchanged buying attitudes, however, have resulted from offsetting trends. The proportion of consumers that mentioned the availability of discounts and rebates as well as the proportion that registered complaints about high vehicle prices have both increased. Indeed, the recognition of both the availability of price discounts and increases in sticker prices reached very high levels in the recent survey.

The proportion that mentioned the availability of price discounts and rebates rose to 35 percent in the August 1989 survey, the highest proportion recorded in two years, and just three percentage points lower than the all-time peak (in only six surveys during the last three decades was a higher

proportion recorded than in August).

At the same time, the proportion of families that complained about high car prices rose to 22 percent in August, the highest proportion recorded since 1984. To be sure, the current level of complaints about high car prices is still well below the record high levels recorded in the late 1970s and early 1980s when "sticker shock" was the common reaction of consumers.

While the increase in both favorable and unfavorable references has kept overall car buying attitudes largely unchanged during the past year, they have remained unchanged at relatively favorable levels. These buying attitudes have been kept at favorable levels because consumers still hold a favorable balance of opinion about car prices (35 percent positive versus 22 percent negative).

These results point to the changing role of discount programs in consumer assessments of buying conditions. Not only have consumers come to expect the continued availability of discounts, but now consumers more often view discounts as simply an offset to increases in sticker prices. (Discount programs offered at the end of the model year have relatively greater impact since consumers expect these discounts to be larger and can avoid new model price increases.)

These developments have diminished the usefulness of discount programs to stimulate sales as well as made the mere maintenance of sales more dependent on their continued availability. Moreover, the more traditional use of discounts has been in times of recessionary downturns, whereas the recent increased dependence on discounts has been developed during relatively good times. These changes suggest that when needed during the next downturn, discount programs will need significant enhancements so as to regain their effectiveness.

Household Durables

Favorable attitudes toward buying conditions for furniture, appliances, and home electronic goods were held by 73 percent of all families in the August 1989 survey, between the 71 percent recorded one month earlier and the 74 percent recorded one year earlier. Consumers continue to base these favorable buying attitudes on the availability of price discounts, reported by 35 percent in August.

Personal Finances Maintained At Favorable Levels

Forty-one percent of all families in the August 1989 survey reported that their financial situation had improved during the past year, unchanged from the July reading. Although the 41 percent that reported improved finances in the August 1989 survey is significantly below the 50 percent recorded a year earlier, the 50 percent was the highest reading recorded in more than twenty years.

When asked to explain how their financial situation had changed during the past year, 34 percent mentioned income increases, although slightly above the 31-32 percent recorded in each of the last three months, it was substantially below the 45 percent recorded at the year earlier peak.

The proportion of families that expected their financial situation to improve during the year ahead rose to 37 percent in the August 1989 survey from 35 percent one month earlier and 36 percent one year earlier. As has been true for more than a year, nearly half of all families expected their financial situation to remain the same, considering changes in both incomes and prices (49 percent in August 1989). Just one-in-ten families expected that their financial situation would worsen during the year ahead.

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The August 1989 survey included 502 completed interviews conducted between August 1 and August 28, 1989.